

Message Text

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C O F I D E N T I A L BELGRADE 3924

STADIS (C O R R E C T E D C O P Y - G A R B L E S T H R O U G H O U T)

HELSINKI FOR SECRETARY'S PARTY

E.O. 11652: GDS

TAGS: PFOR EFIN, YO

SUBJ: EXIMBANK POLICY REVISION COULD MAR PRESIDENT'S VISIT

REF : (A) STATE 170802 (B) STATE 160419 (C) BELGRADE 3236

SUMMARY: EMBASSY HAS RECEIVED FOR DELIVERY TO FINANCE MINISTER LETTER FROM EXIM CHAIRMAN CASEY. LETTER DEFERS EXIM ACTION ON IMPORTANT PROJECT AND FORMULATES AN EXIM STANDARD FOR YUGOSLAVIA THAT WE ANTICIPATE WILL DRAW SHARP GOY REACTION. EMBASSY IS CONCERNED BOTH ABOUT TIMING OF LETTER AND POLICY IMPLICATIONS OF EXIM ACTION. EMBASSY SUGGESTS EXIM POLICY BE URGENTLY REVIEWED AT HIGH-LEVEL IN WASHINGTON AND AT MINIMUM WE RECOMMEND LETTER NOT BE DELIVERED UNTIL AFTER PRESIDENT'S VISIT. IF EXIM POLICY NOT REVERSED AND CASEY LETTER IS TO BE DELIVERED REFERENCES IN JOINT COMMUNIQUE TO SEEM HOLLOW STRENGTHENING US-YUGOSLAV ECONOMIC COOPERATION
END SUMMARY.

1. EMBASSY HAS RECEIVED FOR DELIVERY TO FINANCE MINISTER CEMOVIC LETTER DATED JULY 16 FROM EXIM CHAIRMAN CASEY. LETTER, CITING NEED TO KEEP EXIM NEW COMMITMENTS IN LINE WITH CURRENT EXPOSURE IN
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YUGOSLAVIA, OVERALL EXIM COMMITMENTS AND TRENDS IN YUGOSLAV ECONOMY,

INCLUDING CURRENT PROBLEMS, GOES ON TO STATE THAT EXIM WILL NOW PROCEED "MORE SLOWLY AND SELECTIVELY IN UNDERTAKING NEW COMMITMENTS IN YUGOSLAVIA". NEW COMMITMENTS WILL BE PHASED IN TIME AND "WOULD FOCUS... IN HIGHEST PRIORITY AREAS" IDENTIFIED BY GOY. LETTER INDICATES THAT THIS POLICY WILL MEAN THAT EXIM WILL BE ABLE TO "INCREASE MODERATELY OUR COMMITMENTS IN YUGOSLAVIA IN CONSONANCE WITH...(GOY) EXPRESSED PRIORITIES." IN APPLYING THIS NEW STANDARD EXIM INDICATES THAT ACTION ON KOSOVO THERMAL POWER PROJECT MUST BE DEFERRED UNTIL FULL PICTURE OF 1975 AND TRENDS IN 1976 AVAILABLE. THE IMPLICATION OF LETTER CLEAR. EXIM WILL CONTINUE TO FINANCE SOME SMALL PROJECTS IN YUGOSLAVIA BUT HAS WITHDRAWN AT LEAST UNTIL SOMETIME IN 1976 FROM ANY MAJOR PROJECT FINANCING.

2. WE ANTICIPATE A SHARP GOY REACTION TO THIS REVISION OF EXIM POLICY. TIMING, ON EVE OF PRESIDENTIAL VISIT, COULD NOT BE WORSE, AND IF LETTER DELIVERED TO CEMOVIC, WHICH EMBASSY HAS NOT DONE, WE SUSPECT ISSUE WOULD TEND TO DOMINATE DISCUSSIONS WITH PRESIDENT AND SECRETARY AND COULD WELL SOUR ATMOSPHERE AND NEGATE WHATEVER POSITIVE ELEMENTS MIGHT OTHERWISE FLOW FROM VISIT. AS A MINIMUM, THEREFORE, WE RECOMMEND THAT LETTER NOT REPEAT NOT BE DELIVERED UNTIL AFTER VISIT HAS ENDED. IF THIS MINIMUM COURSE FOLLOWED WE WOULD PROPOSE THAT ORIGINAL CASEY LETTER BE RETYPED BY EXIM, DATED AFTER END OF PRESIDENT'S VISIT (AUGUST 4TH) AND RETRANSMITTED.

3. QUESTION OF TIMING, WHILE IMPORTANT, IN EMBASSY'S VIEW IS SECONDARY TO POLICY IMPLICATIONS OF EXIM ACTION. COMING ON HEELS OF WHAT YUGOSLAVS FEEL ARE POLITICALLY TINGED ACTION BY EEC IN TRADE FIELD (BELGRADE 3236 ,STATE 160419) THIS DECISION COULD CAUSE YUGOSLAVS TO REVIEW ORIENTATION AND DIRECTION OF THEIR ECONOMIC POLICY. THEY HAVE BEEN COUNTING ON U.S. TO HELP TAKE UP SLACK CAUSED BY FALL-OFF IN EXPORTS TO EEC AND ARE ANXIOUS RE-ORIENT THEIR IMPORTS AWAY FROM WESTERN EUROPE TOWARD U.S. WHEREVER THIS PRACTICAL. HOWEVER, IF U.S. HAS WITHDRAWN FROM MAJOR PROJECT FINANCING, THERE IS SOME CHANCE THAT THEY WILL TURN EASTWARD HOWEVER RELUCTANTLY, FOR FINANCING, WITH ALL THAT IMPLIES FOR OUR POSTURE HERE.

4. KOSOVO THERMAL ELECTRIC PROJECT, WHICH IS FIRST CASUALTY OF
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EXIM POLICY, HAS CONSIDERABLE MERIT AND EMBASSY STRONGLY SUPPORTS IT. IT INVOLVES EXPORT OF ABOUT \$175 MILLION WORTH OF U.S. GOODS AND SERVICES BY TWO MAJOR U.S. SUPPLIERS, WESTINGHOUSE AND BABCOCK-WILCOX, IN POWER GENERATING EQUIPMENT FIELD, WHICH HAS BEEN NOTABLY COMPOSED AND DEPENDENT ON EXPORT ORDERS TO MAINTAIN EMPLOYMENT AND PROFITS. ONE SPIN-OFF, IN ANOTHER DEPRESSED FIELD, IS BABCOCK - WILCOX'S INTENTION TO ORDER 25,000 METRIC TONS OF U.S. MADE STEEL FOR PROJECT SINCE THIS NOW PRICE-

COMPETITIVE WITH ANY OTHER SOURCE. IN SHORT, THEN, WE THINK THIS PROJECT GOOD FOR U.S. JOBS AND PROFITS AND FULLY IN KEEPING WITH EXIM'S CHARTER TO PROMOTE U.S. EXPORTS.

5. IN ADDITION PROJECT ITSELF IS IN HIGHEST PRIORITY AREA FOR YUGOSLAVS, ENERGY GENERATION. YUGOSLAVS BADLY NEED ADDITIONAL CAPACITY TO CORRECT STRUCTURAL IMBALANCES IN ECONOMY AND THEY'VE GIVEN THIS FIELD TOP PRIORITY. PROJECT ALSO LOCATED IN YUGOSLAVIA'S MOST DEPRESSED AREA, KOSOVO, WHICH LEADS TO ITS APPEAL FOR YUGOSLAV POLICY-MAKERS. NOT SURPRISING THAT THIS WAS PROJECT SINGLED OUT BY GOY FOR SPECIAL MENTION DURING BIJEDIC VISIT (SMOLE-ROBINSON MEMCON, MARCH 20) AND THEREFORE LOGICAL TO EXPECT STRONG GOY REACTION TO ITS REJECTION.

6. SHOULD BE STRESSED THAT PROJECT ITSELF WOULD NOT COME ON STREAM UNTIL LATE 70'S . HENCE RELEVANCE OF DIFFICULTIES IN GOY CURRENT ACCOUNT IN 1975 AND POSSIBLY 1976 FOR CONSIDERATION OF PROJECT FOR WHICH PAYBACK WOULD BEGIN FOUR OR FIVE YEARS NOT ENTIRELY CLEAR TO US AND CERTAINLY WILL NOT BE TO GOY.

7. WE ALSO WISH POINT OUT IMPACT OF DECISION ON U.S. COMMERCIAL BANKS' POLICY TOWARDS GOY. EXIM BELL-WETHER FOR THEIR DECISIONS AND NEWS OF RESTRICTIONS ON PROJECT FINANCING WILL CERTAINLY HAVE IMPACT ON THEM. IT LIKELY LEAD TO A CONSTRICTION OF THEIR ACTIVITIES IN YUGOSLAVUS AND FURTHER DIMINUTION OF CAPITAL AVAILABLE TO GOY ON MONEY MARKETS, WHICH WOULD HAMPER OUR EFFORTS STRENGTHEN BILATERAL U.S. YUGOSLAV COOPERATION IN ECONOMIC FIELD.

8. ALL THESE CONSIDERATIONS LEAD US TO SUGGEST THAT EXIM POLICY BE URGENTLY REVIEWED AT SUITABLY HIGH LEVEL IN WASHINGTON BEFORE IT ANNOUNCED TO GOY. WE THINK STAKES HIGH ENOUGH TO WARRANT VERY CONFIDENTIAL

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CAREFUL CONSIDERATION OF ALL IMPLICATIONS OF EXIM'S ACTIONS. WHILE THIS UNDER REVIEW WOULD SUGGEST THAT THERE BE NO DISCUSSION OF EXIM'S DECISION WITH INTERESTED U.S. FIRMS.

9. IF IT PROVES IMPOSSIBLE REVERSE COURSE ON EXIM POSITION AND/OR CASEY LETTER PRIOR TO PRESIDENT'S VISIT TO YUGOSLAVIA WE SHOULD CONSIDER EFFECT OF COMMUNIQUE, PARTICULARLY ITS REFERENCE TO US-YUGOSLAV ECONOMIC COOPERATION. RETAINING PRESENT LANGUAGE IN COMMUNIQUE, IN LIGHT OF CASEY LETTER MAY PUT PRESIDENT IN AWKWARD POSITION.
SILBERMAN

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